DOCUMENT RESUME

ED 377 961 PS 022 870

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TITLE	Child Care: Current System Could Undermine Goals of Welfare Reform. United States General Accounting Office Testimony before the Subcommittee on Human Resources, Committee on Education and Labor, and Congressional Caucus for Women's Issues. House of Representatives.
INSTITUTION	General Accounting Office, Washington, DC. Health, Education, and Human Services Div.
REPORT NO	GAO/T-HEHS-94-238
PUB DATE	94
NOTE	16p.
AVAILABLE FROM	U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20884-6015 (First copy, free; additional copies, $2 each; discount on quantity orders).
PUB TYPE	Legal/Legislative/Regulatory Materials (090)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Child Caregivers; Child Health; Child Rearing; *Day Care; *Employed Parents; Family Financial Resources; Federal Programs; Financial Support; Grants; *Low Income Groups; Special Needs Students; State Federal Aid; Welfare Recipients; *Welfare Services
IDENTIFIERS	*Child Care Costs; National Child Care Survey 1990; *Welfare Reform

ABSTRACT

This statement by the associate director of Income Security Issues of the Department of Health, Education and Human Services Division addresses the Congressional welfare reform goal of self-sufficiency for welfare mothers through employment. It analyzes the problems of the current welfare subsidy system by examining the effect of child care subsidy rates on the employment of low-income women. The state notes that Congress has recognized the importance of child care to family self-sufficiency by creating four child care subsidy programs for low-income families since 1988 with the primary goal of economic self-sufficiency through labor force participation made possible by subsidies for low-income mothers' child care costs. But the current system of child care has not necessarily promoted the goal of economic independence and has produced the unintended consequence of gaps in service for the following reasons: (1) categorical eligibility of the existing funding streams; (2) limits on employment-related activities; (3) income eligibility; (4) time limits on subsidized child care; and (5) lack of incentive to serve low-income working families. Closing gaps in federal funding streams, facilitating state flexibility in spending federal dollars, and balancing the incentives for serving various client groups would contribute toward a child care delivery system able to meet the needs of low-income families. (AP)

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Human Resources, Committee on Education and Labor, and Congressional Caucus for Women's Issues
House of Representatives

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For Release on Delivery
Expected at 10:00 a.m.
Tuesday, September 20, 1994

CHILD CARE

Current System Could Undermine Goals of Welfare Reform

Statement of Jane L. Ross, Associate Director
Income Security Issues
Health, Education, and Human Services Division

ED 377 961

PS 022870

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Mr. Chairman, Members of the Subcommittee, and Cochairs of the Caucus for Women's Issues:

Thank you for inviting me here today to discuss our work on child care subsidies for low-income families. As you know, welfare reform is likely to challenge states' already strained capacity to provide child care subsidies to families in need. Although currently there are almost 10 million children on welfare, the present welfare system requires only a small fraction of their parents to be in school or training. However, new proposals would require significantly more welfare recipients to participate in education or training, as well as require them to find work after 2 years. Should such proposals be enacted, many more welfare parents will need child care subsidies.

Recognizing the importance of having a sound system of child care subsidies in place for welfare reform, you asked us to address the implications of our work for the welfare reform goal of self-sufficiency for welfare mothers through employment, while supporting working poor mothers not on welfare. Specifically, today, I will be talking about our ongoing work for the Women's Caucus on the effect of child care subsidy rates on the employment of low-income women and our recently completed work[1] for the Committee on how well current child care subsidy programs are working for low-income families.

RESULTS IN BRIEF

The Congress has recognized the importance of child care to family self-sufficiency by creating four child care subsidy programs for low-income families since 1988. In our preliminary analysis we have found that child care subsidies can dramatically affect whether low-income women work. Despite the infusion of significant funding resulting from these programs, only a small fraction of the eligible population appears to have received child care subsidies. Furthermore, the fragmented nature of the child care funding streams, with entitlements to some client categories, time limits on others, and activity limits on still others, produces unintended gaps in services, which limit the ability of low-income families to achieve self-sufficiency. Finally, as states deplete funds for welfare clients, we found that they turn to funds originally intended for the child care needs of the working poor, putting the working poor at greater risk of welfare dependency. For all of these reasons, we believe that welfare reform's goal of economic independence for the poor could be undermined if the problems in the child care subsidy system are not adequately addressed.

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[1]Child Care: Working Poor and Welfare Recipients Face Service Gaps (GAO/HEHS-94-87, May 13, 1994).

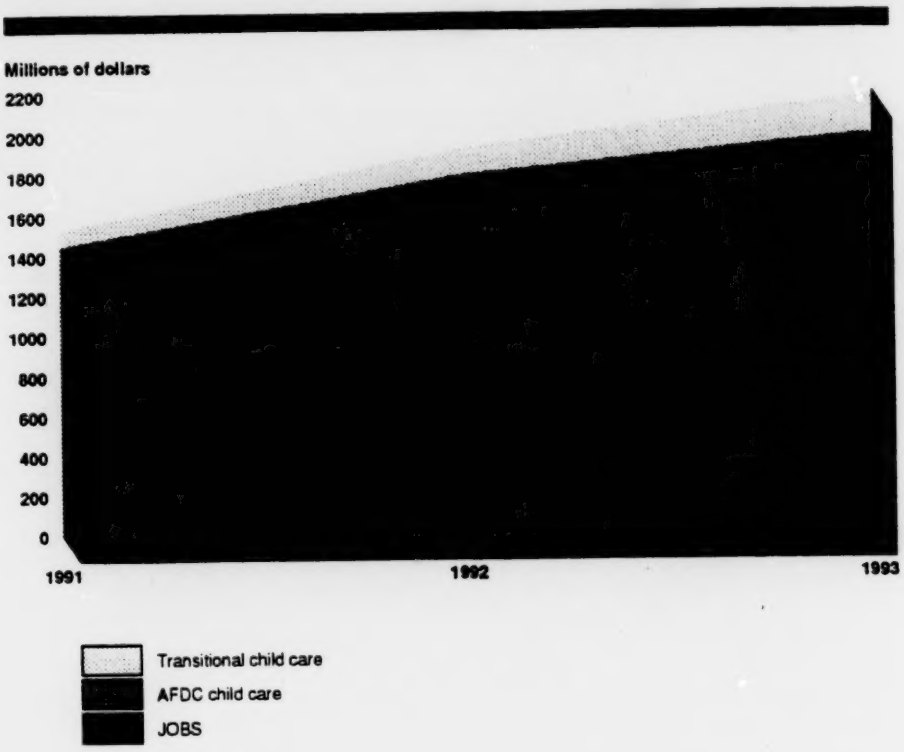
BACKGROUND

Child care costs are a significant portion of most low-income working families' budgets. They consumed as much as 27 percent of monthly income for families with incomes below poverty who paid for child care in 1991, compared with 7 percent for families with incomes above poverty. Because most mothers must pay for child care while they work, their decision to work depends, at least in part, on how much they will make after they have paid for child care. Economic theory suggests that reducing women's child care costs will increase their probability of participating in the labor force.

In fiscal year 1992, about $1.5 billion in federal funds was made available for the four new child care programs for low-income families. One major program aimed at helping welfare recipients obtain education, training, and employment was authorized in the Family Support Act of 1988 (FSA). FSA guarantees child care to employed Aid to Families with Dependent Children (AFDC) recipients and to participants in the Job Opportunities and Basic Skills Training (JOBS) program, as well as other AFDC recipients in state-approved education and training.

In addition, FSA authorized the Transitional Child Care (TCC) program, which guarantees a year of transitional child care to AFDC recipients after they leave the welfare rolls due to increased earnings. Attesting to the critical role of these child care subsidy programs, figure 1 shows that total expenditure growth for these programs has far outstripped growth in the JOBS program itself.

Figure 1: Total Federal and State Expenditures for JOBS, AFDC Child Care, and Transitional Child Care (Fiscal Years 1991, 1992, 1993)



A third program, the At-Risk Child Care program, was enacted in 1990, in recognition of the importance of providing child care subsidies to working poor families. This program is reserved for working families not currently receiving AFDC who would be at risk of becoming eligible for AFDC without such subsidies. Finally, the Child Care and Development Block Grant program of 1990 was designed to provide direct support to low-income working families. Three of the four programs, all but the block grant, require states to appropriate state dollars to claim federal matching funds.

To study how child care expenditures affect the labor force participation of mothers, we used an economic model of labor force participation decisions of women and adapted it to explicitly include child care expenditures. We used data from the Urban Institute's National Child Care Survey of 1990 and its Low-Income Substudy to test how child care expenditures affect poor, near-poor, and nonpoor mothers' probability of being employed. Poor mothers are defined as those at or below federal poverty, and near-poor mothers are those between 100 and 185 percent of federal poverty.

Also, to assess how well current child care subsidy programs are working together, we visited and studied their operations in six large welfare caseload states--California, Illinois, Massachusetts, Michigan, New York, and Texas.

LARGE IMPACT OF FULLY SUBSIDIZING CHILD CARE FOR LOW-INCOME MOTHERS

Our preliminary analysis shows that subsidizing child care costs could have a dramatic effect on the employment of low-income mothers. While employment would increase in all three income groups--poor, near-poor and nonpoor--in response to an increase in child care subsidies, it would increase the most among low-income mothers, both poor and near-poor. Our model predicts that a 100-percent child care subsidy could result in as much as a 158-percent increase in poor mothers' average probability of working, and a 90-percent increase for near-poor mothers.[2] This compares with a 54-percent increase for nonpoor mothers. Viewed another way, the number of low-income mothers who would be working if they did not have to pay anything for child care could rise from 29 to 74 out of every 100 poor mothers and from 43 to 81 out of every 100 near-poor mothers.

We also found that the greatest impact on poor mothers' working prevails under several different subsidy rates. To account for the likelihood that some low-income mothers actually receive less than a 100-percent subsidy, we simulated the employment response of mothers to child care subsidy rates of 10, 25, and 50 percent. In every case, the subsidy had the biggest impact on the employment decision of poor mothers, a smaller but still significant impact on near-poor mothers, and an even smaller impact on nonpoor mothers. For example, a subsidy rate of 50 percent yields a 79-percent increase in the average probability of working for poor mothers, while the increase for near-poor mothers is 50 percent.

FRACTION OF ELIGIBLE POPULATION CURRENTLY SERVED

Despite combined state and federal expenditures of about $2.2 billion in fiscal year 1992 on the four major child care subsidy programs, only a small fraction of the eligible population was served. For example, on the basis of preliminary fiscal year 1992 data reported to the Department of Health and Human Services (HHS) by the states, less than 6 percent of the AFDC caseload received AFDC child care subsidies. Moreover, while little solid data exist

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[2]These results indicate only how the labor supply of mothers would change with a given child care subsidy rate, holding all other variables constant. They do not take into account labor demand changes, short-term lags, gaps, or bottlenecks in the supply of child care, or other changes in economic conditions, all of which may impede mothers' employment.

on the proportion of the eligible working poor population that receives subsidies, we have found that limits on the amount of available child care funding result in waiting lists of eligible needy families. Lack of child care is often cited by poor single mothers not currently in the labor force as one of the reasons they are not looking for work.

CURRENT PROGRAMS CREATE SERVICE GAPS

Although our work suggests a substantial effect on labor force participation from subsidizing low-income mothers' child care costs, the existing subsidy system has problems. We found in our visits to six states that the different federal program requirements of the four child care programs, coupled with resource constraints in the states, produce gaps in the delivery of child care subsidies to the low-income population. Specific service gaps we identified with implications for welfare reform stemmed from program differences in (1) categories of clients who can be served, (2) limits on employment-related activities, (3) limits on income eligibility, and (4) time limits on child care subsidies.

Gaps Result From Categorical Eligibility

Despite similarities in characteristics among low-income families, whether on or off welfare, the patchwork of child care funding makes fine distinctions among categories of families. The current system of child care guarantees subsidies to AFDC recipients participating in employment or state-approved education and training activities as well as to employed former AFDC recipients, but not to working poor families outside the AFDC system. While welfare status guarantees a child care subsidy to individuals in employment-related activities, a welfare recipient's economic status may differ little from a low-income, working, nonwelfare recipient's. In fact, some welfare recipients work but do not earn enough to make them ineligible for welfare, and welfare recipients may cycle on and off assistance a number of times before leaving welfare permanently.

Moreover, the categorical nature of the child care programs does not recognize that disruptions in important services such as child care can cause economically marginal families to lose jobs, and, if eligible, to be forced to rely on welfare. Movement toward self-sufficiency tends to be sporadic, and individuals who have worked their way off welfare are still generally low-income. In fact, some may be economically worse off than they were on welfare since they now face work expenses that can include child care. Consequently, the separate programs may be distinguishing between the same individuals at different points in their journey from welfare to economic self-sufficiency.

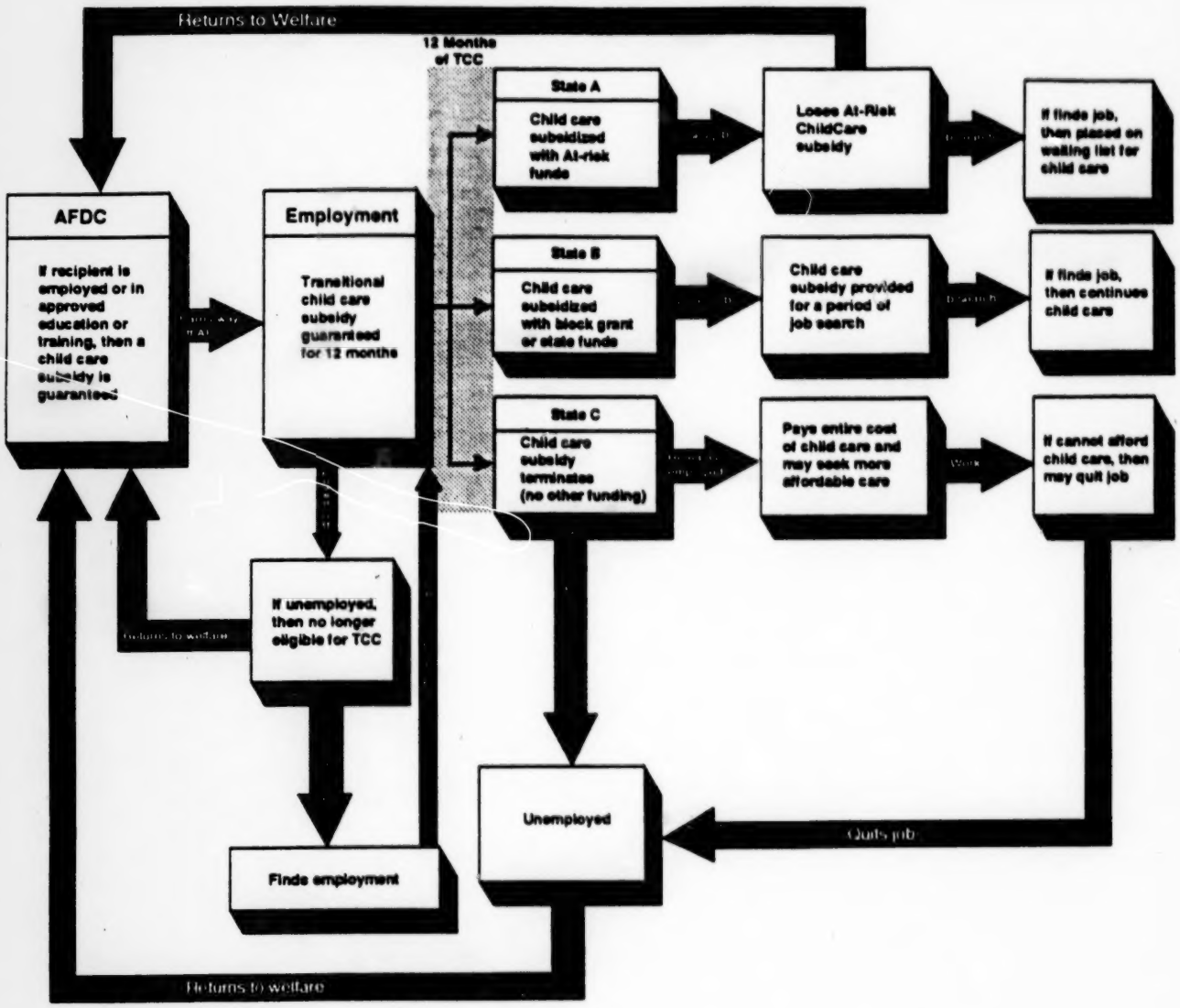
Gaps Result From Limits on Employment-Related Activities

Although At-Risk Child Care and TCC statutory language expressly provides for child care subsidies during employment, HHS regulations strictly interpret the statute and do not specifically allow those funds to subsidize child care during a job search period. Five of the six states[3] we visited told us that the At-Risk Child Care program funds cannot be used to subsidize child care during a job search period or other break in employment, unless employment is scheduled to begin. Consequently, when an employed individual whose child care is subsidized by At-Risk Child Care or TCC funds becomes unemployed, the child care subsidy is generally lost and the children have to be removed from care unless the parent or another funding source can pay the entire cost of care.

Should a parent subsequently find employment, in many cases she will go to the end of a waiting list for subsidized child care and continue to pay the full cost of the care. Should these circumstances force a family onto welfare, the parent would be eligible again for some form of child care assistance once a job was found or the parent began to participate in employment related activities. Figure 2 is a hypothetical flow diagram of low-income families through the subsidized child care system. It demonstrates possible outcomes of the different rules for different child care programs. It is interesting to note how many paths may lead a family back to welfare.

[3]The only state we visited not reporting a concern over At-Risk Child Care was Michigan, which did not plan to participate in the program until 1994.

Figure 2: Hypothetical Client Flow Through Subsidized Child Care System


Returns to Welfare
12 Months of TCC
AFDC
If recipient is employed or in approved education or training, then a child care subsidy is guaranteed
Employment
Transitional child care subsidy guaranteed for 12 months
State A
Child care subsidized with At-risk funds
Loses At-Risk ChildCare subsidy
If finds job, then placed on waiting list for child care
State B
Child care subsidized with block grant or state funds
Child care subsidy provided for a period of job search
If finds job, then continues child care
State C
Child care subsidy terminates (no other funding)
Pays entire cost of child care and may seek more affordable care
If cannot afford child care, then may quit job
If unemployed, then no longer eligible for TCC
Unemployed
Finds employment
Quits job
Returns to welfare

Since many of their clients frequently move in and out of employment, program providers told us that using At-Risk Child Care dollars while they are employed means that those clients will lose child care when they lose a job and begin a job search. The lack of child care makes looking for work more difficult, especially for single parents, and, program providers fear, puts low-income families at greater risk of becoming welfare recipients.

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In California, for example, we were told that local child care providers who were subsidizing low-income families with state funds did not want to use these funds to claim federal At-Risk Child Care money, even though it would substantially increase the funding pool available for child care. Under the At-Risk Child Care program in California, clients lose their child care subsidy within 10 days of losing their job. In contrast, California's state child care program permits 60 days of child care during a job search period.

California child care program administrators and providers told us that their clients regularly move in and out of employment and that it is important to maintain the continuity of child care after they leave a job and during job search periods. These providers prefer to serve well and consistently those clients already in their system rather than serve larger numbers of clients in a piecemeal fashion. Similarly, citing concerns that not providing child care subsidies during job search puts clients at greater risk of going on welfare, child care administrators in New York and Massachusetts reported that they use state funds to subsidize child care during job search periods.

Gaps Result From Limits on Income Eligibility

Other gaps result from limits on income eligibility. Because the block grant limits eligibility to families with incomes below 75 percent of the state median income, there is a "cliff"[4] for clients whose income rises even one dollar above this level. This situation can produce certain work disincentives. For example, a child care worker in Michigan told us that clients reduce their hours of work as they approach the cut-off income, because they believe they will not be able to pay for child care without the subsidy.

An illustration from California also demonstrates the problem of the block grant cut-off. One California child care program, funded exclusively with state funds, will subsidize a family up to 100 percent of the state median income, while the federal block grant subsidizes only up to 75 percent. Thus, two families in the same economic situation in California may be treated differently, depending on which funding stream subsidizes their child care. The family funded with federal block grant funds faces the loss of the child care subsidy as its income increases beyond 75 percent of state median income. The family subsidized by state-only money, however, will continue being subsidized up to 100 percent of state median income.

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[4]A "cliff" exists when a small increase in income results in a large decrease in spendable income due to the abrupt termination of some benefit.

Gaps Result From Time Limits on Subsidized Child Care

The TCC program also presents a service delivery dilemma. At the end of the 12 months of entitlement, if a state does not have any block grant, At-Risk Child Care, or other funds to continue the subsidy to a client, the client must pay the entire cost of child care. This occurs even if the client's earnings have not increased during the 12 months. The result could be that the children get moved to cheaper care or that the parent quits work. Should the parent return to welfare and participate in employment or training, the family once again will be entitled to child care.

All six states we visited perceived the TCC 12-month provision of child care as too short. Since some former welfare recipients may never earn enough money to afford the full cost of child care, the 12-month limit on the TCC subsidy may not be long enough to support all families. The six states all attempt to continue to subsidize TCC families with another funding source after the 12-month limit. Three states make post-TCC clients a priority for At-Risk Child Care funds, and three states use the block grant. One state uses state funds for these families. However, since these funding streams are limited, states do not always have funds to continue the subsidy. Officials in three of six states have requested, or are considering requesting, a federal waiver to be able to continue providing TCC for 12 additional months.

When Texas depleted funds to extend subsidies for former TCC families, a special waiting list for these families was created so that they would be the first to receive additional funds when they became available. However, state officials expressed concern over what clients would do about child care in the interim. Although one Texas official would like to see more TCC made available, she is concerned that this would reduce the amount of state funding available to claim At-Risk Child Care funds. This could further limit subsidies for the working poor with no immediate ties to welfare.

Current System Provides Little Incentive to Serve Low-Income Working Families

Current rules for the child care programs described above produce incentives for states to serve entitled clients first and to form waiting lists for other eligible families, namely the working poor. Although child care workers believe that providing child care is important to prevent low-income working families from going on welfare, these families are served, as funding permits, after states provide subsidies to entitled individuals. Clients guaranteed or entitled by law to receive child care benefits are placed in one category, and other eligible individuals are prioritized and served as resources permit.

In most states, child protective service cases[5] and clients entitled to AFDC child care and TCC are in the category that will be guaranteed child care subsidies. Working poor, nonwelfare recipients are in the category that will receive subsidies as resources permit. For example, in Texas they are fourth in a priority list consisting of eight major client groups. In Massachusetts, they are the third eligibility category of three categories, and Illinois reports that it serves its nonentitled caseload in the following order: teen parents, protective services and special-needs families, followed by low-income working families.

The combination of program mandates and limited resources requires states to make difficult choices that frequently result in denying services to needy eligible families. Decisions on who will receive a child care subsidy depend upon the availability of funds and the funding rules. Eligible clients are matched with funding streams that fit their eligibility status. When the funding runs out for a particular category, states terminate intake and either form waiting lists or simply turn clients away. Consequently, clients who are eligible for funds but are not entitled to them may not receive services, while clients who are entitled to services receive them regardless of funding source. Moreover, as states are required by FSA to increase participation in the JOBS program,[6] the competition for limited child care funds will only increase, with greater pressure to provide child care to welfare recipients.

Currently, some states use federal block grant funds to meet AFDC child care entitlements. Although the block grant legislation does not prohibit assisting families on welfare, the primary goal of the block grant is to help working poor families afford child care. However, as states run out of money to claim federal funds, some turn to the block grant to meet their obligations to entitled individuals. Three of the six states we visited reported using some federal block grant funds to meet child care entitlements. In a recent survey of all states by the Children's Defense Fund, 15 states reported using block grant funds to pay for child care for at least some AFDC families in employment, education, or training programs.

In a much publicized court case in California, the state supreme court ruled that California was required by federal statute to provide child care to "self-initiated," non-JOBS welfare participants in state-approved education and training. To comply, the state transferred federal block grant funds to meet the

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[5]These are children in state custody due to abuse or neglect.

[6]The JOBS participation rate for mandatory participants was 11 percent in fiscal years 1992 and 1993. It increased to 15 percent in fiscal year 1994 and to 20 percent in fiscal year 1995.

anticipated need for welfare families' child care subsidies, thereby reducing the amount of block grant funds available to low-income, nonwelfare, working families.

Texas annually allocates a portion of its block grant funds to child care for JOBS participants because the state legislature has not appropriated enough state dollars to draw down the federal dollars to meet the child care needs of all JOBS participants. To the extent that states are using federal block grant funds to meet entitlements, fewer dollars are available for non-AFDC low-income working families.

CONCLUSIONS

Most welfare reform proposals before the Congress call for large-scale additions to the number of welfare mothers currently required to participate in education, training, and work. Those same proposals also call--for the first time in the history of the AFDC program--for time limits on the receipt of welfare, followed by mandatory public service employment when private-sector employment has not been found. Such proposals would increase the need for child care subsidies. However, the current system of child care is not structured to optimally support the welfare reform goal of economic independence for low-income families. The categorical nature of the existing funding streams, with entitlements to some client categories, time limits on others, and activity limits on still others, has the unintended consequence of producing gaps in services.

Because there is not sufficient funding to provide government-subsidized child care for the entire low-income population, states have to deny care to some people in need. Given their budget constraints, some states will seek to satisfy their mandates in a way that minimizes state costs. By law, states must serve those currently or recently on AFDC but have little incentive to serve other low-income families in like or even worse economic circumstances. As a result, the emphasis in welfare reform on providing services to help welfare recipients leave welfare has overshadowed the importance of also providing child care to the working poor. Providing such child care both prevents welfare dependency and continues support to low-income families until they can better afford to pay the full cost of child care. By treating welfare and low-income working families as distinctly different, when so many have similar circumstances, the current system does not necessarily promote the goal of economic self-sufficiency in an equitable manner.

Since welfare reform's success is inextricably tied to the provision of support services such as child care, the problems in the current subsidy system will need to be addressed. Closing gaps in federal funding streams, facilitating state flexibility in spending federal dollars, and balancing the incentives for serving

various client groups would contribute toward a child care delivery system better able to meet the needs of low-income families trying to achieve economic self-sufficiency through employment--the primary goal of welfare reform.

Thank you, Mr. Chairman, Members, and Co-Chairs of the Caucus. That concludes my statement today. I would be happy to answer any questions.

For more information on this testimony, please call Lynne Fender, Assistant Director, at (202) 512-7229. Other major contributors included Margaret Boeckmann, Senior Social Science Analyst, and Alicia Puente Cackley, Senior Economist.

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